

CITY OF CHARITON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2021

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City of Chariton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dennis Bisgard	Mayor	January 1, 2022
Jayma M. Hoch	Council Member	January 1, 2022
Michael Loew	Council Member	January 1, 2024
Roger Manser	Council Member	January 1, 2022
Stephen Fenton	Council Member	January 1, 2024
Laura J. Liegois	City Manager	Indefinite
Christy Metzger	City Clerk	Indefinite
Verle W. Norris	Attorney	Indefinite

City of Chariton



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, (City) as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2021, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2021, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2020 (which are not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units. The financial statements for the three years ended June 30, 2019 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2016 (which are not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units. The financial statements for the two years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules I through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph above, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 30 through 34 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

December 13, 2021

Basic Financial Statements

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2021

Functions / Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 932,685	31,586	219,779	60,000	(621,320)	-	(621,320)
Public works	1,081,207	14,376	656,133	-	(410,698)	-	(410,698)
Health and social services	9,000	-	-	-	(9,000)	-	(9,000)
Culture and recreation	611,404	158,066	32,232	152,000	(269,106)	-	(269,106)
Community and economic development	64,240	-	-	-	(64,240)	-	(64,240)
General government	371,362	33,494	-	-	(337,868)	-	(337,868)
Debt service	483,813	-	-	-	(483,813)	-	(483,813)
Capital projects	275,273	-	-	-	(275,273)	-	(275,273)
Total governmental activities	3,828,984	237,522	908,144	212,000	(2,471,318)	-	(2,471,318)
Business type activities:							
Sewer	995,919	958,263	23,336	30,000	-	15,680	15,680
Solid waste	57,324	37,316	-	-	-	(20,008)	(20,008)
Storm water	4,309	62,758	1,016	-	-	59,465	59,465
Airport	63,740	54,053	4,704	63,226	-	58,243	58,243
Total business type activities	1,121,292	1,112,390	29,056	93,226	-	113,380	113,380
Total	\$ 4,950,276	1,349,912	937,200	305,226	(2,471,318)	113,380	(2,357,938)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					1,463,635	-	1,463,635
Debt service					450,473	-	450,473
Tax increment financing					142,079	-	142,079
Hotel motel tax					29,395	-	29,395
Local option sales tax					429,883	-	429,883
Other city tax					103,979	-	103,979
Unrestricted interest on investments					32,157	5,895	38,052
Rent					25,698	-	25,698
Sale of capital assets					8,251	-	8,251
Transfers					18,810	(18,810)	-
Total general receipts and transfers					2,704,360	(12,915)	2,691,445
Change in cash basis net position					233,042	100,465	333,507
Cash basis net position beginning of year					3,563,131	1,727,752	5,290,883
Cash basis net position end of year					\$ 3,796,173	1,828,217	5,624,390
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 240,945	-	240,945
Expendable:							
Streets					32,792	-	32,792
Tax increment financing					5,959	-	5,959
Fire department					260,597	-	260,597
Library					104,118	-	104,118
Debt service					103,670	47,532	151,202
Community center					228,902	-	228,902
Other purposes					1,885,880	-	1,885,880
Unrestricted					933,310	1,780,685	2,713,995
Total cash basis net position					\$ 3,796,173	1,828,217	5,624,390

See notes to financial statements.

City of Chariton

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2021

	Special Revenue						Total
	General	Road Use Tax	Employee Benefits	Local Option Sales Tax	Debt Service	Nonmajor	
Receipts:							
Property tax	\$1,058,779	-	404,856	-	450,473	-	1,914,108
Tax increment financing	-	-	-	-	-	142,079	142,079
Other city tax	117,053	-	7,895	429,883	8,425	-	563,256
Licenses and permits	26,271	-	-	-	-	-	26,271
Use of money and property	47,139	-	-	12,635	-	980	60,754
Intergovernmental	171,335	646,691	-	-	-	-	818,026
Charges for service	137,452	-	-	-	-	-	137,452
Miscellaneous	368,312	-	-	-	-	4,706	373,018
Total receipts	1,926,341	646,691	412,751	442,518	458,898	147,765	4,034,964
Disbursements:							
Operating:							
Public safety	764,362	-	164,976	-	-	-	929,338
Public works	362,259	594,628	118,363	-	-	-	1,075,250
Health and social services	9,000	-	-	-	-	-	9,000
Culture and recreation	550,369	-	56,943	-	-	3,241	610,553
Community and economic development	44,850	-	-	-	-	19,390	64,240
General government	315,606	-	55,756	-	-	-	371,362
Debt service	-	-	-	-	483,813	-	483,813
Capital projects	-	-	-	275,273	-	-	275,273
Total disbursements	2,046,446	594,628	396,038	275,273	483,813	22,631	3,818,829
Excess (deficiency) of receipts over (under) disbursements	(120,105)	52,063	16,713	167,245	(24,915)	125,134	216,135
Other financing sources (uses):							
Sale of capital assets	8,251	-	-	-	-	-	8,251
Transfers in	195,000	-	-	-	72,732	5,000	272,732
Transfers out	(61,190)	(69,000)	-	-	-	(123,732)	(253,922)
Total other financing sources (uses)	142,061	(69,000)	-	-	72,732	(118,732)	27,061
Change in cash balances	21,956	(16,937)	16,713	167,245	47,817	6,402	243,196
Cash balances beginning of year	1,218,149	52,729	533,471	924,162	55,853	699,506	3,483,870
Cash balances end of year	\$1,240,105	35,792	550,184	1,091,407	103,670	705,908	3,727,066
Cash Basis Fund Balances							
Nonspendable:							
Cemetery perpetual care	\$ -	-	-	-	-	240,945	240,945
Restricted for:							
Streets	-	35,792	-	-	-	-	35,792
Tax increment financing	-	-	-	-	-	5,959	5,959
Fire department	-	-	-	-	-	260,597	260,597
Library	-	-	-	-	-	104,118	104,118
Debt service	-	-	-	-	103,670	-	103,670
Community center	228,902	-	-	-	-	-	228,902
Other purposes	150,000	-	550,184	1,091,407	-	94,289	1,885,880
Assigned	454,044	-	-	-	-	-	454,044
Unassigned	407,159	-	-	-	-	-	407,159
Total cash basis fund balances	\$1,240,105	35,792	550,184	1,091,407	103,670	705,908	3,727,066

See notes to financial statements.

City of Chariton

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2021

Total governmental funds cash balances (page 10) \$ 3,727,066

***Amounts reported for governmental activities in the Cash Basis Statement
of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

69,107

Cash basis net position of governmental activities (page 9) \$ 3,796,173

Change in cash balances (page 10) \$ 243,196

***Amounts reported for governmental activities in the Cash Basis Statement
of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the change in the cash balance of the Internal Service Funds are reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(10,154)

Change in cash basis net position of governmental activities (page 9) \$ 233,042

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2021

	Enterprise					Internal Service Central Fuel
	Sewer	Solid Waste	Storm Water	Nonmajor - Airport	Total	
Operating receipts:						
Charges for service	\$ 958,263	37,316	62,758	25,225	1,083,562	194,214
Rental of facilities	-	-	-	28,828	28,828	-
Miscellaneous	23,336	-	1,016	4,704	29,056	-
Total operating receipts	981,599	37,316	63,774	58,757	1,141,446	194,214
Operating disbursements:						
Governmental activities:						
Public safety	-	-	-	-	-	13,480
Public works	-	-	-	-	-	23,551
Culture and recreation	-	-	-	-	-	3,216
General government	-	-	-	-	-	165,715
Business type activities	711,042	57,324	4,309	63,740	836,415	1,328
Total operating disbursements	711,042	57,324	4,309	63,740	836,415	207,290
Excess (deficiency) of operating receipts over (under) operating disbursements	270,557	(20,008)	59,465	(4,983)	305,031	(13,076)
Non-operating receipts (disbursements):						
Intergovernmental	30,000	-	-	63,226	93,226	-
Interest on investments	2,701	3,194	-	-	5,895	-
Debt service	(86,340)	-	-	-	(86,340)	-
Capital projects	(195,615)	-	-	-	(195,615)	-
Net non-operating receipts (disbursements)	(249,254)	3,194	-	63,226	(182,834)	-
Excess (deficiency) of receipts over (under) disbursements	21,303	(16,814)	59,465	58,243	122,197	(13,076)
Other financing sources (uses):						
Transfers in	-	-	-	6,190	6,190	-
Transfers out	(25,000)	-	-	-	(25,000)	-
Total other financing sources (uses)	(25,000)	-	-	6,190	(18,810)	-
Change in cash balances	(3,697)	(16,814)	59,465	64,433	103,387	(13,076)
Cash balances beginning of year	965,268	514,043	242,756	626	1,722,693	84,320
Cash balances end of year	\$ 961,571	497,229	302,221	65,059	1,826,080	71,244
Cash Basis Fund Balances						
Restricted for debt service	\$ 47,532	-	-	-	47,532	-
Unrestricted	914,039	497,229	302,221	65,059	1,778,548	71,244
Total cash basis fund balances	\$ 961,571	497,229	302,221	65,059	1,826,080	71,244

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Proprietary Funds

As of and for the year ended June 30, 2021

Total enterprise funds cash balances (page 12) \$ 1,826,080

*Amounts reported for business type activities in the Cash Basis Statement
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

2,137

Cash basis net position of business type activities (page 9)

\$ 1,828,217

Change in cash balances (page 12)

\$ 103,387

*Amounts reported for business type activities in the Cash Basis Statement
of Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of the City's central fuel facility to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(2,922)

Change in cash basis net position of business type activities (page 9)

\$ 100,465

See notes to financial statements.

City of Chariton

Notes to Financial Statements

June 30, 2021

(1) Summary of Significant Accounting Policies

The City of Chariton (City) is a political subdivision of the State of Iowa located in Lucas County. It was first incorporated in 1857 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Council-Manager form of government with the Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sewer, solid waste, storm water and airport services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City are significant.

Excluded Component Units

- The Chariton Public Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Chariton Public Library Foundation is to support the activities of the Chariton, Iowa public library.
- The Chariton Volunteer Fire Department was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Chariton Volunteer Fire Department is to support the activities of the Chariton, Iowa fire department.
- The Chariton Municipal Waterworks (Waterworks) was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Waterworks is governed by a five member Board of Trustees appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Waterworks administrative office.
- The Friends of The Chariton Airport, Inc. was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Friends of the Chariton Airport, Inc. is to support the activities of the Chariton, Iowa airport.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the primary government of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and the proprietary funds. Major individual governmental funds and the major individual enterprise fund is reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for the employee benefits tax levy used to fund pension and related employee benefits.

The Local Option Sales Tax Fund is used to account for local option sales tax collections and related disbursements of these funds in accordance with the ballot referendum.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's closed landfill.

The Enterprise, Storm Water Fund accounts for the operation and maintenance of the City's storm water operations.

The City also reports the following proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost-reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements: Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2019 assessed property valuations; is for the tax accrual period July 1, 2020 through June 30, 2021 and reflects tax asking contained in the budget certified to the City Council in March 2020.

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2021, disbursements exceeded the amounts budgeted in the debt service function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2021 were entirely covered by federal depository insurance, by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa, and for deposits in the credit union, a standby letter of credit in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) **Long-term Liabilities**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021.

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 795,000	-	260,000	535,000	265,000
Direct Placements:					
General Obligation Note	331,631	-	104,306	227,325	106,930
Direct Borrowings - Bank Loans	51,677	-	42,834	8,843	8,843
Direct Borrowings - Capital Leases	95,568	-	47,043	48,525	23,863
Direct Borrowings - Other Loans	47,872	-	15,798	32,074	15,957
Governmental activities total	<u>\$1,321,748</u>	<u>-</u>	<u>469,981</u>	<u>851,767</u>	<u>420,593</u>
Business type activities:					
Direct Borrowings:					
Sewer Revenue Bonds	\$ 967,000	-	67,000	900,000	69,000
Business-type activities total	<u>\$ 967,000</u>	<u>-</u>	<u>67,000</u>	<u>900,000</u>	<u>69,000</u>

General Obligation Bonds

A summary of the City's June 30, 2021 general obligation bonds payable is as follows:

Year Ending June 30,	Corporate Purpose and Refunding Bonds Series 2012A					
	Issued June 15, 2012			Total		
	Interest					
	Rates	Principal	Interest	Principal	Interest	Total
2022	2.00%	\$ 265,000	5,350	265,000	5,350	270,350
2023	2.00%	270,000	2,700	270,000	2,700	272,700
		\$ 535,000	8,050	535,000	8,050	543,050

On June 15, 2012, the City issued \$2,070,000 of general obligation corporate purpose and refunding bonds with an interest rate of 2.00% per annum. The bonds were issued to pay the costs of acquiring equipment for the street department, and advance refunding of the outstanding balance of the City's General Obligation Corporate Purpose and Refunding Bonds, Series 2008. During the year ended June 30, 2021, the City paid \$260,000 of principal and \$15,900 of interest on the bonds.

Direct Placements - General Obligation Note

A summary of the City's June 30, 2021 direct placements general obligation note payable is as follows:

Year Ending June 30,	Fire Truck Acquisition Note			Total		
	Issued December 5, 2017					
	Interest					
	Rates	Principal	Interest	Principal	Interest	Total
2022	2.50%	\$ 106,930	4,819	106,930	4,819	111,749
2023	2.50%	120,395	2,329	120,395	2,329	122,724
		\$ 227,325	7,148	227,325	7,148	234,473

On December 5, 2017, the City issued \$524,000 of general obligation fire truck acquisition note with an interest rate of 2.50% per annum. This note agreement was entered into with a local bank. The note was issued to pay the costs of acquiring a fire truck. During the year ended June 30, 2021, the City paid \$104,306 of principal and \$7,643 of interest on the notes.

Direct Borrowings - Bank Loans

A summary of the City's June 30, 2021 direct borrowings bank loans payable is as follows:

Year Ending June 30,	2016 Road Patcher Vortex Issued November 30, 2016			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2022	2.75%	\$ 8,843	122	8,843	122	8,965
		\$ 8,843	122	8,843	122	8,965

On August 31, 2016, the City entered into a loan agreement with a local bank for \$123,438. The funds were used for the purchase of a 2015 International truck and snow plow equipment. The loan bears interest at 2.75% per annum and is payable in 10 semi-annual installments beginning October 15, 2016 and ending April 15, 2021. For the year ended June 30, 2021, principal and interest paid on the loan totaled \$25,186. The principal balance on the loan at June 30, 2021 was \$0.

On November 30, 2016, the City entered into a loan agreement with a local bank for \$87,035. The funds were used for the purchase of a 2016 Road Patcher Vortex and related equipment. The loan bears interest at 2.75% per annum and is payable in 10 semi-annual installments beginning April 15, 2017 and ending October 15, 2021. For the year ended June 30, 2021, principal and interest paid on the loan totaled \$18,779. The principal balance on the loan at June 30, 2021 was \$8,843.

Direct Borrowings - Capital Leases

A summary of the City's June 30, 2021 direct borrowings capital leases payable are as follows:

Year Ended June 30,	Front-end Wheel Loader		Total
2022	\$ 25,280		25,280
2023	25,280		25,280
Minimum Lease Payments	50,560		50,560
Less Amount Representing Interest	(2,035)		(2,035)
Present Value of Minimum Lease Payments	\$ 48,525		48,525

On May 1, 2018, the City entered into a lease-purchase agreement for \$40,543 to lease a pickup with snowplow. The lease term is for three years, with interest at 3.15% per annum. The lease is collateralized by the equipment. For the year ended June 30, 2021, principal and interest paid on the capital lease totaled \$14,126. The principal balance at June 30, 2021 was \$0.

On May 1, 2018, the City entered into a lease-purchase agreement for \$115,877 to lease a Front-end Wheel Loader. The lease term is for five years, with interest at 3.30% per annum. The lease is collateralized by the equipment. For the year ended June 30, 2021, principal and interest paid on the capital lease totaled \$25,280. The principal balance at June 30, 2021 was \$48,525.

On May 1, 2018, the City entered into a lease-purchase agreement for \$29,933 to lease a Police Vehicle. The lease term is for three years, with interest at 3.15% per annum. The lease is collateralized by the equipment. For the year ended June 30, 2021, principal and interest paid on the capital lease totaled \$10,594. The principal balance at June 30, 2021 was \$0.

Direct Borrowings - Other Loans

A summary of the City's June 30, 2021 direct borrowings other loans payable is as follows:

Year Ending June 30,	Iowa Economic Development Authority Issued March 1, 2018			Total		
	Interest		Interest	Principal		Total
	Rates	Principal		Principal	Interest	
2022	1.00%	\$ 15,957	281	15,957	281	16,238
2023	1.00%	16,117	121	16,117	121	16,238
		<u>\$ 32,074</u>	<u>402</u>	<u>32,074</u>	<u>402</u>	<u>32,476</u>

On March 1, 2018, the City borrowed \$79,000 from the Iowa Economic Development Authority, with an interest rate of 1.00%. The money was borrowed to demolish a derelict building on the Chariton square. During the year ended June 30, 2021, the City paid \$15,798 of principal and \$439 of interest on the loan.

Direct Borrowings - Revenue Bonds:

A summary of the City's June 30, 2021 direct borrowings revenue bonds payable are as follows:

Year Ending June 30,	SRF Sewer Revenue Bond Series 2009A Issued January 13, 2010			SRF Sewer Revenue Bond Series 2016 Issued December 9, 2016			Total		
	Interest		Interest	Interest		Interest	Principal		Total
	Rates	Principal		Rates	Principal		Principal	Interest	
2022	1.75%	\$ 42,000	7,508	1.75%	\$ 27,000	8,243	69,000	15,751	84,751
2023	1.75%	43,000	6,773	1.75%	28,000	7,770	71,000	14,543	85,543
2024	1.75%	45,000	6,021	1.75%	28,000	7,281	73,000	13,302	86,302
2025	1.75%	46,000	5,233	1.75%	29,000	6,791	75,000	12,024	87,024
2026	1.75%	47,000	4,428	1.75%	29,000	6,283	76,000	10,711	86,711
2027-2031	1.75%	206,000	9,156	1.75%	157,000	23,507	363,000	32,663	395,663
2032-2036		-	-	1.75%	173,000	9,209	173,000	9,209	182,209
		<u>\$ 429,000</u>	<u>39,119</u>		<u>\$ 471,000</u>	<u>69,084</u>	<u>900,000</u>	<u>108,203</u>	<u>1,008,203</u>

On January 13, 2010, the City entered into a bond agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of sewer revenue bond series 2009A of up to \$808,000 with interest at 3.00% per annum, which was later modified to 1.75% per annum, and are payable through 2030. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. During the year ended June 30, 2021, the City paid principal of \$40,000 and interest of \$8,208 on the bonds.

On December 9, 2016, the City entered into a bond agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of sewer revenue bond series 2016 of up to \$600,000 with interest at 1.75% per annum, and are payable through 2036. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the municipal wastewater treatment system. During the year ended June 30, 2021, the City paid principal of \$27,000 and interest of \$8,715 on the bonds.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$808,000 of sewer revenue bonds issued January 13, 2010 and a \$600,000 sewer revenue bonds issued December 9, 2016. The bonds are payable solely from sewer customer net receipts. Annual principal and interest payments on the bonds are expected to require less than 32% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,008,203. For the current year, principal and interest paid and total customer net receipts were \$83,923 and \$270,557, respectively.

The resolutions providing for the issuance of the sewer revenue bonds include the flowing provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a sewer revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to pay for extraordinary repairs or replacements to the sewer system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

Interim Revenue Project Notes

On September 25, 2020, the City entered into an interest free interim revenue project note agreement with the Iowa Finance Authority for up to \$220,000 to be used for the purpose of paying costs of planning, designing and constructing improvements and extensions to the sanitary sewer system. During the year ended June 30, 2021, the City drew \$0 on this note, and as of June 30, 2021, \$0 is owed in relation to this note. This note is due on September 25, 2023.

(4) Operating Lease Agreement

The City entered into a lease on April 4, 2019 to lease copier equipment at a monthly minimum of \$350. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires in April 2024.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2021:

Year Ended June 30,	Amount
2022	\$ 4,199
2023	4,199
2024	3,150
	\$ 11,548

During the fiscal year, total expenditures incurred in relation to this lease agreement were \$4,168.

(5) **Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.41% of covered payroll and the City contributed 9.61% of covered payroll, for a total rate of 16.02%.

The City's contributions to IPERS for the year ended June 30, 2021 totaled \$100,589.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2021, the City reported a liability of \$617,026 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2020, the City's proportion was 0.0087836%, which was an increase of 0.001362% over its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$131,974, \$175,005 and \$90,046, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0 %	4.43 %
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	100.0 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 1,209,474	617,026	120,501

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, overtime and sick leave time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, overtime and sick leave time payable to employees at June 30, 2021, primarily relating to the General Fund is as follows:

Type of Benefit	Amount
Vacation	\$ 52,140
Personal	4,459
Comp time	9,339
Sick leave	217,887
Toal	\$ 283,825

The liability has been computed based on the rates of pay in effect at June 30, 2021.

(7) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the provisions of Internal Revenue Code Section 457. The plan, available to the police department and the City Manager, allows those employees to defer a portion of their current salary until future years. The plan is administered by ICMA-RC. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency. The City provides neither administrative service to the plan nor investment advice for the plan.

The contributions are made at 6.2% of gross salary by the City of Chariton, and the employees also contribute 6.2% of gross salary for a combined total of 12.4%. The contribution rates were established by the City of Chariton, and may be amended by the City. The contributions made by the City for the year ended June 30, 2021 were \$14,813, and the employee contribution rates totaled \$15,044. The City's liability to ICMA-RC at June 30, 2021 totaled \$0.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2021 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Urban Renewal Tax Increment	\$ 120,000
	Road Use Tax	50,000
	Enterprise:	
	Sewer	25,000
		<u>195,000</u>
Special Revenue:		
Historic Preservation	General	<u>5,000</u>
Debt Service	General	50,000
	Special Revenue:	
	Road Use Tax	19,000
	Special Assessment	3,732
		<u>72,732</u>
Enterprise:		
Airport	General	<u>6,190</u>
Total		<u>\$ 278,922</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Lease Income

The City is leasing antenna space on the water tower to a communication provider. The length of the lease term is five years with options to extend for additional years at the option of the tenant. The lease terms contain provisions of monthly rent amounts and increases in rents. The City received \$20,698 from the tenant in fiscal year 2021 from this lease.

The City is leasing real estate to a communication provider. The length of the lease term is twenty years, beginning March 1, 2021. The lease terms include \$5,000 per year rent over the lease term. The City received \$5,000 from the tenant in fiscal year 2021 from this lease.

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$5,040 during the year ended June 30, 2021.

(11) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Development Agreement

The City has entered into a development agreement with Hotel Charitone, LLC (developer) for the rehabilitation of an old hotel with a minimum assessed value of \$735,000. The City agreed to pay the developer an amount for 15 years and not to exceed \$500,000, whichever comes first. The agreement requires up to thirty semi-annual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2021, the City rebated \$19,390 of incremental property tax to the developer. At June 30, 2021, the remaining balance to be paid on the agreement was \$376,471 and the amount appropriated for payment in the next fiscal year is \$25,000.

This agreement is not a general obligation of the City. However, it would appear the amount owed in relation to this agreement is subject to the constitutional debt limitation of the City.

(13) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2021, \$7,199 of property tax was diverted from the City under the urban renewal and economic development agreements.

Tax Abatements of Other Entities

Other entities within the City also provided tax abatements for urban renewal and economic development projects pursuant to Chapters 15 and 403 of the Code of Iowa.

Property tax revenues of the City were reduced by the following amounts for the year ended June 30, 2021 under agreements entered into by the following entity:

Entity	Tax Abatement Program	Amount of Tax Abated
Lucas County	Urban renewal and economic development projects	\$ 7,166

(14) Landfill Closure

The City landfill closed on April 1, 1994. Closure costs were incurred by the City in prior years for a final cover. Because the landfill closed before the effective date of state and federal rules and regulations, the City is not required to meet certain postclosure care requirements or demonstrate financial assurance for closure and postclosure care. However, state law requires the City to conduct ground water monitoring at the landfill for 30 years.

(15) Commitments

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

The City and Lucas County entered into an agreement whereby the Sheriff's Office would provide dispatch services to the City. The agreement between the City and Lucas County is perpetual, until terminated by either party. The total amount paid by the City in fiscal year 2021 to Lucas County in relation to this agreement was \$18,000 for rent of office space and \$72,157 for dispatch services.

The City and USW Utility Group (USW) have entered into an agreement with an effective date of April 1, 2021. The agreement runs through June 30, 2025. The agreement with USW states that USW will operate and maintain the City's sewer system. During fiscal year 2021, the City paid USW \$249,188. The agreement with USW allows for rate increases over the term of the agreement.

The City owes the Iowa Department of Natural Resources (IDNR) approximately \$15,200 for the repayment of unspent grant monies received by the City in 2010. The City has an agreement with the IDNR to pay the remaining balance owed to them in fiscal year 2022.

The City can borrow an additional \$220,000 from its interim revenue project notes that was issued on September 25, 2020.

The City has entered into various contracts for the purchase of equipment and construction projects. As of June 30, 2021, approximately \$196,000 remains to be paid on these items. This amount will be paid for as equipment is received and as work progress for construction projects. The City intends to pay for these costs for existing cash reserves.

The City has entered into an agreement with the Waterworks for utility billing services for the period from fiscal year 2022 through fiscal year 2026. The fees to be paid by the City will be \$18,000 per year beginning in fiscal year 2022, with provisions for increases in rates in subsequent years.

(16) Contingencies

The City obtained \$123,438 and \$87,035 in loans from a local bank to purchase equipment. The City paid the principal and interest on these loans with property tax monies levied for the Debt Service Fund. However, there was no indication that the City followed the procedures as required by the Code of Iowa which allows the City to repay this loan from the Debt Service tax levy. As a result, the City may have to repay the principal and interest paid on this loan to the County Treasurer, and ultimately the taxpayers. The potential liability to the City is unknown.

The City entered into three capital lease purchase agreements for approximately \$186,000. The City paid the principal and interest on these capital leases with property tax monies levied for the Debt Service Fund. However, the agreement with the borrower indicates that capital leases are payable from the General Fund. Therefore, it would not appear the City could use property tax monies levied for the Debt Service Fund to pay principal and interest on these capital leases. As a result, the City may have to repay the principal and interest paid on these capital leases to the County Treasurer, and ultimately the taxpayers. The potential liability to the City is unknown.

(17) Fund Balance

The City's assigned fund balance in the General Fund as of June 30, 2021 consists of the following:

Purpose	Amount
Cemetery	\$ 111,322
Library	339,011
Park	3,711
Total	<u>\$ 454,044</u>

(18) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the City, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the City. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the City.

(19) Subsequent Events

The City has evaluated all subsequent events through December 13, 2021, the date the financial statements were available to be issued.

On July 6, 2021, the City awarded a contract for \$117,140 for a street asphalt overpay project. It is anticipated this project will be completed in fiscal year 2022. The City intends to pay for this project from existing cash reserves.

(20) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Other Information

City of Chariton
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2021

				(Unaudited) Component Unit Chariton Municipal Waterworks				
	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Actual	Total	Budgeted Amounts		Final to Total Variance
						Original	Final	
Receipts:								
Property tax	\$ 1,914,108	-	-	-	1,914,108	1,790,165	1,816,696	97,412
Tax increment financing	579,857	-	-	-	579,857	150,000	150,000	429,857
Other city tax	125,478	-	-	-	125,478	624,559	431,435	(305,957)
Licenses and permits	26,271	-	-	-	26,271	-	85,025	(58,754)
Use of money and property	60,754	34,723	-	22,387	117,864	-	121,382	(3,518)
Intergovernmental	818,026	93,226	-	113,400	1,024,652	650,000	843,269	181,383
Charges for service	137,452	1,277,776	194,214	2,572,376	3,793,390	5,623,332	5,271,675	(1,478,285)
Miscellaneous	373,018	29,056	-	107,494	509,568	625,000	560,500	(50,932)
Total receipts	4,034,964	1,434,781	194,214	2,815,657	8,091,188	9,463,056	9,279,982	(1,188,794)
Disbursements:								
Public safety	929,338	13,480	13,480	-	929,338	912,027	1,052,437	123,099
Public works	1,075,250	23,551	23,551	-	1,075,250	751,679	1,182,000	106,750
Health and Social Services	9,000	-	-	-	9,000	9,000	9,000	-
Culture and recreation	610,553	3,216	3,216	-	610,553	737,887	862,377	251,824
Community and economic development	64,240	-	-	-	64,240	75,000	72,000	7,760
General government	371,362	165,715	165,715	-	371,362	311,807	374,478	3,116
Debt service	483,813	-	-	-	483,813	521,249	460,249	(23,564)
Capital projects	275,273	-	-	-	275,273	330,000	330,500	55,227
Business type activities	-	1,119,698	1,328	2,554,747	3,673,117	5,272,019	5,662,519	1,989,402
Total disbursements	3,818,829	1,325,660	207,290	2,554,747	7,491,946	8,920,668	10,005,560	2,513,614
Excess (deficiency) of receipts over (under) disbursements	216,135	109,121	(13,076)	260,910	599,242	542,388	(725,578)	1,324,820
Other financing sources, net	27,061	(18,810)	-	390,583	398,834	-	371,200	27,634
Change in balances	243,196	90,311	(13,076)	651,493	998,076	542,388	(354,378)	1,352,454
Balances beginning of year	3,483,870	1,807,013	84,320	821,548	6,028,111	4,582,304	4,582,304	1,445,807
Balances end of year	\$ 3,727,066	1,897,324	71,244	1,473,041	7,026,187	5,124,692	4,227,926	2,798,261

City of Chariton

Notes to Other Information - Budgetary Reporting

June 30, 2021

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$1,084,892. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2021, disbursements exceeded the amount budgeted in the debt service function.

City of Chariton

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Seven Years*
(In Thousands)

Other Information

	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.008784%	0.007421%	0.008203%	0.008036%	0.008629%	0.007885%	0.007531%
City's proportionate share of the net pension liability	\$ 617	430	519	535	543	390	299
City's covered payroll	\$ 991	916	904	905	881	855	840
City's proportionate share of the net pension liability as a percentage of its covered payroll	62.30%	46.94%	57.41%	59.11%	61.63%	45.61%	35.59%
IPERS' net position as a percentage of the total pension liability.	82.90%	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Chariton

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Statutorily required contribution	\$ 101	95	89	84	84	81	80	78	75	83
Contributions in relation to the statutorily required contribution	(101)	(95)	(89)	(84)	(84)	(81)	(80)	(78)	(75)	(83)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
City's covered payroll	\$ 1,053	991	916	904	905	881	855	840	820	*
Contributions as a percentage of covered payroll	9.49%	9.59%	9.72%	9.29%	9.28%	9.19%	9.36%	9.29%	9.15%	*

* - City's covered employee payroll information was not readily available. Therefore, contributions as a percentage of covered employee payroll could not be calculated.

See accompanying independent auditor's report.

City of Chariton

Notes to Other Information – Pension Liability

Year ended June 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

City of Chariton

Schedule I

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2021

	Special Revenue					Permanent		
	Revolving Loan Fund	Library Endowment	Historic Preservation	Special Assessment	Fire Department	Tax Increment Financing	Cemetery Perpetual Care	Total
Receipts:								
Tax increment financing	\$ -	-	-	-	-	142,079	-	142,079
Use of money and property	928	-	52	-	-	-	-	980
Miscellaneous	-	-	-	-	-	-	4,706	4,706
Total receipts	928	-	52	-	-	142,079	4,706	147,765
Disbursements:								
Operating:								
Culture and recreation	-	-	3,241	-	-	-	-	3,241
Community and economic development	-	-	-	-	-	19,390	-	19,390
Total disbursements	-	-	3,241	-	-	19,390	-	22,631
Excess (deficiency) of receipts over (under) disbursements	928	-	(3,189)	-	-	122,689	4,706	125,134
Other financing sources (uses):								
Transfers in	-	-	5,000	-	-	-	-	5,000
Transfers out	-	-	-	(3,732)	-	(120,000)	-	(123,732)
Total other financing sources (uses)	-	-	5,000	(3,732)	-	(120,000)	-	(118,732)
Change in cash balances	928	-	1,811	(3,732)	-	2,689	4,706	6,402
Cash balances beginning of year	82,924	104,118	8,626	3,732	260,597	3,270	236,239	699,506
Cash balances end of year	\$ 83,852	104,118	10,437	-	260,597	5,959	240,945	705,908
Cash Basis Fund Balances								
Nonspendable:								
Cemetery perpetual care	\$ -	-	-	-	-	-	240,945	240,945
Restricted for:								
Tax increment financing	-	-	-	-	-	5,959	-	5,959
Fire department	-	-	-	-	260,597	-	-	260,597
Library	-	104,118	-	-	-	-	-	104,118
Other purposes	83,852	-	10,437	-	-	-	-	94,289
Total cash basis fund balances	\$ 83,852	104,118	10,437	-	260,597	5,959	240,945	705,908

See accompanying independent auditor's report.

City of Chariton
Schedule of Indebtedness
Year ended June 30, 2021

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes:									
Corporate Purpose and Refunding Bonds Series 2012A	June 15, 2012	2.00%	\$ 2,070,000	795,000	-	260,000	535,000	15,900	-
Fire Truck Acquisition Note	December 5, 2017	2.50%	524,000	331,631	-	104,306	227,325	7,643	-
Total				<u>\$ 1,126,631</u>	<u>-</u>	<u>364,306</u>	<u>762,325</u>	<u>23,543</u>	<u>-</u>
Bank Loans:									
2015 Intl Snow Plow	August 31, 2016	2.75%	\$ 123,438	24,674	-	24,674	-	512	-
2016 Road Patcher Vortex	November 30, 2016	2.75%	87,035	27,003	-	18,160	8,843	619	-
Total				<u>\$ 51,677</u>	<u>-</u>	<u>42,834</u>	<u>8,843</u>	<u>1,131</u>	<u>-</u>
Capital Leases:									
2019 Ford F350 Pickup w/Snowplow	May 1, 2018	3.15%	\$ 40,543	13,688	-	13,688	-	438	-
2018 Cat Front-end Wheel Loader	May 1, 2018	3.30%	115,887	71,614	-	23,089	48,525	2,191	-
Police vehicle	May 1, 2018	3.15%	29,933	10,266	-	10,266	-	328	-
Total				<u>\$ 95,568</u>	<u>-</u>	<u>47,043</u>	<u>48,525</u>	<u>2,957</u>	<u>-</u>
Loan:									
Iowa Economic Development Authority	March 1, 2018	1.00%	\$ 79,000	47,872	-	15,798	32,074	439	-
Revenue Bonds:									
SRF Sewer Revenue Bond Series 2009A	January 13, 2010	1.75%	\$ 808,000	469,000	-	40,000	429,000	8,208	-
SRF Sewer Revenue Bond Series 2016	December 9, 2016	1.75%	600,000	498,000	-	27,000	471,000	8,715	-
Total				<u>\$ 967,000</u>	<u>-</u>	<u>67,000</u>	<u>900,000</u>	<u>16,923</u>	<u>-</u>
Interim Revenue Project Notes:									
Sewer	September 25, 2020	0.00%	\$ 220,000	-	-	-	-	-	-

See accompanying independent auditor's report.

Bond and Note Maturities

June 30, 2021

General Obligation Bonds and Notes					
Year Ending June 30,	Corporate Purpose and Refunding Bonds Series 2012A		Fire Truck Acquisition Note		Total
	Issued June 15, 2012		Issued December 5, 2017		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2022	2.00%	\$ 265,000	2.50%	\$ 106,930	371,930
2023	2.00%	270,000	2.50%	120,395	390,395
		<u>\$ 535,000</u>		<u>\$ 227,325</u>	<u>762,325</u>
Revenue Bonds					
Year Ending June 30,	SRF Sewer Revenue Bond Series 2009A		SRF Sewer Revenue Bond Series 2016		Total
	Issued January 13, 2010		Issued December 9, 2016		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2022	1.75%	\$ 42,000	1.75%	\$ 27,000	69,000
2023	1.75%	43,000	1.75%	28,000	71,000
2024	1.75%	45,000	1.75%	28,000	73,000
2025	1.75%	46,000	1.75%	29,000	75,000
2026	1.75%	47,000	1.75%	29,000	76,000
2027	1.75%	49,000	1.75%	30,000	79,000
2028	1.75%	51,000	1.75%	31,000	82,000
2029	1.75%	52,000	1.75%	31,000	83,000
2030	1.75%	54,000	1.75%	32,000	86,000
2031	-	-	1.75%	33,000	33,000
2032	-	-	1.75%	33,000	33,000
2033	-	-	1.75%	34,000	34,000
2034	-	-	1.75%	35,000	35,000
2035	-	-	1.75%	35,000	35,000
2036	-	-	1.75%	36,000	36,000
		<u>\$ 429,000</u>		<u>\$ 471,000</u>	<u>900,000</u>

See accompanying independent auditor's report.

City of Chariton

Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Receipts:										
Property tax	\$ 1,914,108	1,801,291	1,842,180	1,726,026	1,703,503	1,706,658	1,721,826	1,710,690	2,152,337	1,626,475
Tax increment financing	579,857	141,018	147,942	149,255	150,350	140,776	-	-	-	-
Other city tax	125,478	519,570	525,219	516,859	565,702	478,281	502,142	480,416	-	492,316
Licenses and permits	26,271	16,965	9,140	12,721	11,862	32,880	14,936	20,280	34,303	12,844
Use of money and property	60,754	80,785	61,832	39,933	46,843	12,136	24,495	24,522	13,637	17,671
Intergovernmental	818,026	647,591	763,467	774,166	779,649	941,210	2,581,692	739,942	569,635	794,761
Charges for service	137,452	108,413	102,490	97,479	113,425	112,538	114,958	118,037	140,202	145,342
Miscellaneous	373,018	292,124	198,919	438,997	377,957	349,366	490,628	263,901	126,396	131,500
Total	\$ 4,034,964	3,607,757	3,651,189	3,755,436	3,749,291	3,773,845	5,450,677	3,357,788	3,036,510	3,220,909
Disbursements:										
Operating:										
Public safety	\$ 929,338	957,340	950,508	1,683,846	803,256	727,674	726,370	654,929	671,681	587,218
Public works	1,075,250	869,474	896,907	783,860	784,503	699,049	631,400	654,028	700,672	590,805
Health and social services	9,000	9,000	9,000	7,400	7,400	7,400	7,400	7,417	4,700	4,700
Culture and recreation	610,553	595,544	576,680	537,289	545,912	670,293	586,188	607,779	489,795	630,902
Community and economic development	64,240	65,994	63,446	111,151	66,087	107,161	1,490,369	237,933	37,814	190,437
General government	371,362	361,819	322,471	318,499	315,272	462,989	373,425	356,522	348,658	350,950
Debt service	483,813	511,578	519,099	498,203	444,035	371,050	419,633	461,016	803,840	594,882
Capital projects	275,273	298,059	327,531	322,267	643,248	1,032,031	1,293,818	454,448	294,273	1,725
Total	\$ 3,818,829	3,668,808	3,665,642	4,262,515	3,609,713	4,077,647	5,528,603	3,434,072	3,351,433	2,951,619

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa (City) as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 13, 2021. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Chariton Public Library Foundation, Chariton Volunteer Fire Department, the Chariton Municipal Waterworks and the Friends of the Chariton Airport, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-21 and I-B-21 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-21 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2021 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

December 13, 2021

City of Chariton

Schedule of Findings

Year Ended June 30, 2021

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-21 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one or two individuals have control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Inventory – recording and reconciling.
- 4) Long-term debt – recording and reconciling.
- 5) Receipts – collecting, depositing, posting and reconciling.
- 6) Accounting system – performing all general accounting functions and having custody of City assets.
- 7) Disbursements – preparing checks, signing checks and access to the accounting records.
- 8) Petty cash – custody, reconciling and recording.
- 9) Payroll – recordkeeping, preparation and distribution.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

I-B-21 Preparation of Financial Statements

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

City of Chariton

Schedule of Findings

Year Ended June 30, 2021

Condition - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statements and accompanying notes to the financial statements is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the City. The outside party does not have the constant contact with ongoing financial transactions.

Recommendation - We recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements and accompanying notes to the financial statements internally.

Response - These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion - Response acknowledged.

I-C-21 Chart of Accounts

Criteria - An effective internal control system provides for internal controls related to accurate and complete financial reporting.

Condition - The City has not fully implemented the recommended Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee.

Cause - City policies and procedures have not been established to require the use of the Uniform Chart of Accounts.

Effect - Not using a uniform chart account could result in inaccurate or incomplete financial reporting.

Recommendation - To provide better financial information and control, the City should establish policies and procedures to require the use of the recommended Uniform Chart of Accounts, or its equivalent.

Response - We will look at implementing a chart of accounts for the City.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2021

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-21 Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response acknowledged.

- II-B-21 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 2019 were noted.

- II-C-21 Travel Expense – No disbursements of City of Chariton (City) money for travel expenses of spouses of City officials or employees were noted.

- II-D-21 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Avis Goblen, Deputy Clerk Spouse of Steven Goblen	Custodial service	\$5,040

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Deputy Clerk do not appear to represent conflicts of interest since total transactions with the individual was less than \$6,000 during the fiscal year.

- II-E-21 Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

- II-F-21 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

- II-G-21 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

- II-H-21 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

- II-I-21 Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.

- II-J-21 Interfund Transfers – Interfund transfers did not document a clear statement of reason or purpose for the transfer. Not all interfund transfers were approved by resolution. These provisions are all required by Iowa Administrative Code Section 545-2.1.

Recommendation – The City should implement procedures to ensure compliance with the State of Iowa requirements in relation to interfund transfers.

City of Chariton

Schedule of Findings

Year Ended June 30, 2021

Response – We will implement this recommendation in the future.

Conclusion – Response acknowledged.

- II-K-21 Payroll – Some police department employees are covered by Social Security, and other police department employees are not covered by Social Security in accordance with Section 218 of the Social Security Act. Based on our review of Section 218 of the Social Security Act, it is questionable if the City can discriminate within the same class of employees.

Recommendation – The City should consult legal counsel regarding the disposition of this matter.

Response – We will consult our Attorney in relation to this matter. However, we believe this issue was corrected in fiscal year 2021.

Conclusion – Response acknowledged.

- II-L-21 Debt Service Levy – The City's budget certified to the State of Iowa includes a request of monies from the debt service levy for the payment of the debt on the City's vehicle loans.

However, for some of the vehicle loans, there was no documentation that the City, by resolution, provided for an assessment of an annual levy to pay off this debt.

Chapter 384.24A(3) of the Code of Iowa states that "The governing body shall follow substantially the same authorization procedure required for the issuance of general obligation bonds issued for the same purpose to authorize a loan agreement made payable from the debt service fund."

Furthermore, Chapter 76.2(1)(a) of the Code of Iowa states that "The governing authority of a political subdivision specified in section 76.1, subsection 1, before issuing bonds shall, by resolution, provide for the assessment of an annual levy upon all the taxable property in the political subdivision sufficient to pay the interest and principal of the bonds within a period named not exceeding the applicable period of time specified in section 76.1. A certified copy of this resolution shall be filed with the county auditor or the auditors of the counties in which the political subdivision is located; and the filing shall make it a duty of the auditors to enter annually this levy for collection from the taxable property within the boundaries of the political subdivision until funds are realized to pay the bonds in full. The levy shall continue to be made against property that is severed from the political subdivision after the filing of the resolution until funds are realized to pay the bonds in full."

Based on the above, it appears the City does not have legal authority to impose an assessment of an annual levy to pay off some of the City's vehicle loans.

Recommendation – The City should consult with legal counsel regarding the disposition of this matter.

Response – We will consult with legal counsel on this.

Conclusion – Response acknowledged.

- II-M-21 Lease Agreement – The City entered into several capital lease purchase agreements with a financial institution. These leases state that the payment of these leases by the City are payable from the General Fund. However, the City levied a tax for these payments and paid these lease payments from the Debt Service Fund. As a result, it is questionable if the City is in compliance with the lease agreements.

Recommendation – The City should consult with legal counsel regarding the disposition of this matter.

City of Chariton

Schedule of Findings

Year Ended June 30, 2021

Response – We will consult with legal counsel on this.

Conclusion – Response acknowledged.

- II-N-21 Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

We noted that the amounts certified could not be substantiated to ensure they were done so in accordance with the Code of Iowa.

Recommendation – The City should consult TIF legal counsel to determine the disposition of this issue. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa. The City should determine the correct amounts to be certified in the future for debt payments.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- II-O-21 TIF Transfers - During the year, the City made transfers of \$120,000 from the Special Revenue, Urban Renewal Tax Increment Fund to the General Fund. These transfers do not appear to represent TIF debt/obligations and, accordingly, are not allowable uses of tax increment financing receipts in accordance with Chapter 403.19 of the Code of Iowa.

Recommendation – The City should ensure that transfers from the Special Revenue, Urban Renewal Tax Increment Fund are allowable uses of tax increment financing receipts. In addition, the City should consult TIF legal counsel to determine the disposition of this issue.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- II-P-21 Annual Urban Renewal Report (AURR) – The AURR report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the cash balances, receipts and the beginning and ending debt balances as reported on the AURR do not agree to the City's records.

Recommendation – The City should ensure the balances reported on the Levy Authority Summary on the AURR agree with the City's records.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.